



COUNTY OF LOS ANGELES  
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TO: SUPERVISOR DON KNABE, Chairman  
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FROM: LLOYD W. PELLMAN   
County Counsel

RE: **Tenet Divestiture Plan**

Items 61A, D and F on the agenda of February 3, 2004, instructed the Director of Health Services and County Counsel to consult with the State Attorney General to review the agreements associated with Tenet Healthcare Corporation's purchase of Centinela, Daniel Freeman Memorial and Daniel Freeman Marina Hospitals, and other affected hospitals. Your Board asked that we evaluate the terms of these agreements and the potential impact of Tenet's move to sell these facilities and report back in two weeks. Your Board further requested that we advise you on the prior court ruling regarding Daniel Freeman Marina Hospital.

As you know, on January 28, 2004, Tenet announced its plan to divest, among others, 14 hospitals in Los Angeles County by the end of 2004.<sup>1</sup> Because Tenet, a for-profit corporation, had acquired some of these hospitals from a nonprofit corporation, state law requires the consent of the State Attorney General prior to sale. Based on discussions with the Attorney General's Office and review of correspondence and transactional documents, the following operating conditions were imposed on Tenet hospitals:

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<sup>1</sup> Tenet has also elected to terminate or otherwise not renew the leases of two other hospitals within Los Angeles County, Century City Hospital and Suburban Medical Center, with anticipated closure dates of April and October 2004, respectively.

1. Daniel Freeman Memorial

- a. Maintain current level of emergency room capacity and services until December 17, 2006.<sup>2</sup>
- b. Provide emergency room services at Memorial or at Centinela Hospital in the City of Inglewood until December 31, 2008.
- c. Provide existing or comparable space for the paramedic training program until December 17, 2006.
- d. Continue at a health facility in the City of Inglewood, the Sexual Assault Response Team program that is currently being operated at Memorial until December 17, 2006.
- e. Incur at least \$2 million annually in charity costs, under existing charity care policies substantially similar to those in effect at Centinela, which is deemed to be 1,071 inpatient days, until December 17, 2008, or pay \$2,000 for each patient day below 1,071 days to another similar provider of charity care in the Memorial service area.
- f. Donate \$100,000 annually to programs addressing special health concerns, such as diabetes, until December 17, 2008.
- g. Provide free transportation programs to healthcare facilities for qualified persons within the Memorial service area until December 17, 2008.
- h. Use best efforts to provide a minimum of 15,000 patient days annually for Medi-Cal patients until December 17, 2008.
- i. Participate in the Medi-Cal and Medicare programs so long as there is not a substantial reduction in the level of reimbursement, or require such participation of Centinela should Memorial cease to operate as an acute care facility.

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<sup>2</sup> Many of the requirements imposed by the Attorney General were tied to the closing date of the purchase of the Daniel Freeman hospitals, which was estimated by representatives of the Attorney General to be December 17, 2001. We have inquired Tenet of the exact closing date and are awaiting a response.

- j. Maintain certain obstetrical services until December 17, 2003. If ceased after this date, maintain such services at Centinela until December 17, 2006.

2. Daniel Freeman Marina

- a. Establish an urgent care or ambulatory care facility within two miles of Marina if it ceases to operate as an acute care hospital until December 17, 2006; or

Provide for two years from such closure of Marina or until June 1, 2005, whichever is later, free transportation to nearby clinics and hospitals for certain residents in the Marina service area, with an outreach program for such and other similar services.

- b. Attorney General's lawsuit: On August 13, 2002, the Los Angeles Superior Court (Case No. BC 277716) issued a preliminary injunction sought by the Attorney General which prohibited Tenet from closing Marina until such time as it had complied with certain procedural requirements for closure imposed as part of Tenet's earlier acquisition of Marina.

The parties have since settled the matter, with a Notice of Entry of Judgment filed on April 25, 2003. The settlement recognized that based on recent actions, Tenet had complied with the terms and conditions imposed by the Attorney General. Thus, while Tenet may now close Marina, it is our understanding that Marina continues to operate as an acute care facility, and continues to operate its emergency room but is slated for divestiture.

3. Centinela Hospital Medical Center

- a. Maintain substantially similar charity care policies as are currently in effect until December 17, 2006.
- b. Provide a minimum of 15,000 patient days annually for Medi-Cal patients for so long as Centinela operates as an acute care hospital if Memorial ceases to operate as an acute care hospital.
- c. Offer certain obstetrical services until December 17, 2006, if Memorial has eliminated such services after December 17, 2003.

4. Queen of Angels/Hollywood Presbyterian Medical Center

- a. Provide certain charity and indigent care and other community benefits of approximately \$15,123,000 annually. In addition, Tenet is required that as a condition of sale to any third party acquiring Queen of Angels, the charity care obligations continue to be provided by the acquiring party, with Tenet thereafter being released and discharged from the obligation.
- b. Up to June 12, 2003, Tenet was required to continue operating as an acute care facility, as well as its basic emergency medical services and obstetrical/perinatal unit.

5. Other Hospitals Subject to Divestiture

Representatives from the Attorney General's Office have advised us that no other hospitals to be divested are subject to any existing operating requirements. Tenet's counsel, Brent McDonald, has advised us that while he has not reviewed in detail any documents associated with other hospitals, he also does not believe that there are any existing operating requirements governing those facilities. We have asked Mr. McDonald to review the related purchase agreements for those hospitals which were acquired by Tenet to confirm that there are in fact no existing requirements similar to those set forth above (i.e., continuing charity/indigent care obligations, emergency medical services, or operations as an acute care facility). He has indicated that he anticipates providing a response in two weeks. We will keep you apprised of any further information and developments.

If you have questions concerning this matter, please contact me, or Deputy County Counsel Edward A. Morrissey at 974-1554.

LWP:EAM:jm

c: David E. Janssen  
Chief Administrative Officer

Violet Varona-Lukens, Executive Officer  
Board of Supervisors

Thomas L. Garthwaite, M.D., Director and Chief Medical Officer  
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